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C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 001890

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TAGS: ECON ENRG NO PL
SUBJECT: NEW EXXON-MOBIL TECHNOLOGY OFFERS POLAND POTENTIAL GAS SUPPLY ALTERNATIVE

Classified By: Acting Econ Counselor Laura Griesmer, reasons 1.5 (b) an d (d)

¶1. (C) Summary. ExxonMobil Exploration (EM) executives briefed Acting Economic Counselor on discussions with the GOP to explore Poland's willingness to work with EM to utilize new gas technology that could unlock tight gas supplies. If EM decides to pursue the project, it plans to work with the Polish Oil and Gas Company (PGNIG) to test the technology for use in Poland. To pursue the project, EM will require that the GOP agree to market pricing, third-party access to gas pipelines, and the right to export to other markets. EM also asked the USG to handle information on the potential sale of its interest in the Skarv field in Norway carefully given employee sensitivities. The Norwegian embassy noted that the gas from the field is already committed to projects, and thus will not help meet Poland's short-term energy needs. End Summary.

Proprietary Technology can unlock Tight Gas

¶2. (C) Richard Chuchla, Frontier and Gas Resources Manager and David Leary, Geological Associate, of ExxonMobil (EM) Exploration Company, briefed Acting Economic Counselor on their discussions with the GOP on utilizing EM proprietary technology to unlock tight gas in Poland. EM successfully deployed the technology in the Piceance Basin in Colorado. Similar geological structures in Poland could be another application for the new technology.

¶3. (C) Chuchla and Leary discussed the concept with the Ministry of Economy, PGNIG, the Geological Institute and other Polish scientific research institutes. After consultation with headquarters, EM will likely propose that PGNIG and EM hold a joint technical workshop to test the technological concept using Polish geological data. Chuchla thinks that the best strategy will be for EM to partner with PGNIG. By partnering with PGNIG, EM will have easier access to geophysical data and can tap into PGNIG's technical expertise. PGNIG also has drilling rigs available, as well as trained staff, which will speed up the entire process if the data looks promising. Chuchla noted that some land that EM is interested in exploring is available for tender but PGNIG is finalizing tendering rules to comply with EU law. Other promising acreage is available now through direct negotiation with the government.

EM's Preconditions

¶4. (C) In order for EM to pursue any project in Poland, the company will require that the GOP agree that any resource

developed be sold at market prices, that EM be guaranteed third-party access to all Polish pipelines, and that EM have the right to export to other countries. According to Chuchla, the working level officials of the Ministry of Economy tentatively agreed to these terms, although hesitated slightly when asked about the right to export to other countries. EM pursued exploration opportunities in Poland in the early nineties but pulled-out when it could not negotiate a guarantee of market price or export.

Next Steps

¶5. (C) Chuchla and Leary will now discuss their findings with EM Exploration management. Once the decision to go ahead is made, EM will negotiate a right of first-refusal for access to the resource if the data shows that it is worth pursuing. Next would be the data workship, which they hope to be able to schedule this Fall. Once the results are digested, and if they are favorable, EM will begin negotiations on basic principles of development. They will negotiate access to concession acreage that does not need to be tendered as well as participate in tenders for other promising concessions. Seismic exploration could start once sufficient concessions are available. Finally, test wells would be dug. If successful, limited gas production could be available from the test wells. Assuming a best case scenario, which would require municipality and federal government agreements in a timely fashion and good test results, some gas could be produced in the 2011-2012 time-frame.

ExxonMobil, Poland and Norway's Skarv Field

¶6. (C) While Chuchla and Leary were in Poland, the GOP asked the USG to inform EM that it is interested in acquiring EM's interest in the Skarv off-shore field in Norway. Chuchla told us that he'd informed EM management of the interest. He asked that the USG not discuss the sale publicly as the matter was very sensitive for EM, and

especially its employees in Norway. Our contacts at the Norwegian embassy were unaware that the interest in the field was available. They told us that the gas from the field is already committed to other projects, and thus will not immediately help Poland with its gas supply diversification goals. The embassy is also unsure whether PKN Orlen or PGNIG will be considered a credible bidder by the government of Norway given their lack of onshore experience.

Comment

¶7. (C) ExxonMobil's application of proprietary technology to unlock tight gas in Poland could be a solution to Poland's energy security dilemma by producing domestic gas. However, besides the obvious need for good seismic and test-well results, the real challenge will be whether the government of Poland will agree to EM's requirements for market pricing, pipeline access, and export rights. Of all of Poland's options for improving its energy security (gas from Norway, LNG, Odessa-Brody-Plock), ExxonMobil's plan, while in the very early stages, could be Poland's best hope for diversifying supply at the least cost.

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